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October 18, 2005

Hand Delivered
The Honorable Charles L.A. Terreni
Chief Clerk & Administrator
Public Service Commission of South Carolina
ATTN: Docketing Department
101 Executive Center Drive
Columbia, South Carolina 29210

Re: South Carolina Electric & Gas Company - South Carolina Electric and Gas Company - Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies
Docket No. 2005-5-G

Dear Mr. Terreni:

Enclosed please find the original and twenty-five copies of the supplemental testimony of Jimmy Addison on behalf of South Carolina Electric & Gas Company in the above-referenced docket. By copy of this letter, I am serving the parties of record with a copy of this testimony.

Please date stamp the enclosed copy of this letter and return it with our courier. Should anything further be needed, please do not hesitate to contact me.

With kind regards,

Patricia B. Morrison

PBM/kms
Enclosure

cc: Shannon Bowyer Hudson, Esq.
Scott Elliott, Esq.

CERTIFICATE OF SERVICE VIA MAIL

I hereby certify that on October 18, 2005, a copy of the Supplemental Testimony of Jimmy Addison on behalf of South Carolina Electric & Gas Company was served on the parties listed below at the addresses indicated by depositing a true copy thereof in the United States Mail at Columbia, South Carolina, in an envelope with adequate first-class postage duly affixed and a return address clearly indicated thereon and addressed to:

Shannon Bowyer Hudson, Esq.
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, S.C. 29201

Scott Elliott, Esq.
721 Olive Street
Columbia, SC 29205

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Katherine Holland

Re: South Carolina Electric & Gas Company - Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies
Docket No. 2005-5-G

SUPPLEMENTAL TESTIMONY OF JIMMY E. ADDISON ON BEHALF OF SOUTH CAROLINA ELECTRIC AND GAS COMPANY DOCKET NO. 2005-5-G

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jimmy E. Addison and my office is located at 1426 Main Street, Columbia, South Carolina. I am Vice President, Finance of South Carolina Electric & Gas Company ("SCE&G") and hold a similar position at SCANA Corporation, which is the parent company of SCE&G.

Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.

A. I am a graduate of the University of South Carolina with a Bachelor of Science Degree in Business Administration, majoring in accounting, and a Master of Accountancy Degree. Also, I hold a certificate as a Certified Public Accountant in South Carolina. Prior to my employment by the Company in March 1991, I was employed for seven years by the certified public accounting firm of Deloitte & Touche, where I was designated an Audit Manager as a public utility accounting and audit specialist. I was also a partner in the public accounting firm of Hughes, Boan and Addison immediately prior to joining the Company. I currently serve as treasurer of the Southeastern Electric Exchange.

Q. WHAT ARE YOUR DUTIES WITH SCE&G?

A. As Vice President, Finance of SCE&G, I have responsibility for planning, directing and overseeing the finance, accounting, treasury, investor relations, sourcing and information technology functions.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have testified in several proceedings before this Commission including SCE&G's 1992, 1995 and 2004 electric rate cases, and its 2005 gas base rate case.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present information concerning the settlement agreement entered into by the parties to this matter on October 17, 2005 (the "Settlement"). I also am presenting the amended Memorandum of Understanding ("MOU") between the electric and gas departments of SCE&G which has been revised to reflect the new allocation factors agreed to in the Settlement. (Exhibit __(JEA-1)).

Q. WHAT ARE THE PRINCIPAL PROVISIONS OF THE SETTLEMENT?

A. The principal terms of the Settlement are as follows:

1. Under the Settlement, the cost of gas factor for the period beginning November 1, 2005, would not reflect recovery of SCE&G's current under-collection of gas costs for the period ending October 31, 2005. That under-collection is currently estimated to be $14,076,545. Rather than being collected through the gas cost factor for the upcoming period, this $14

million amount will be deferred for collection beginning on November 1, 2006.

2. Under the Settlement, the cost of gas factor for the period beginning November 1, 2005, is based on the 24 month average of forecasted natural gas supply costs rather than the 12 month forecast period typically used in PGA proceedings. The use of the 24 month average rather than the 12 month forecast lowers the resulting cost of gas factor, and is anticipated to increase the under-collection of gas supply costs during the forecast period by approximately $7 million.
3. From November 1, 2006 forward, the under-collection balance will bear interest monthly at the 10 year U.S. Treasury Bill rate plus a credit spread of 65 basis points.
4. The Settlement reflects the Parties' agreement to approve SCE&G's decision to retire its propane air facilities and replace them with other capacity resources. Under the Settlement SCE&G will inject the propane inventories presently on hand in the propane air facilities into its system during the months of December 2005 and January 2006. Because these inventories were largely acquired before the most recent increase in energy costs, they are carried on the books at an average inventory cost of approximately $5.05 per dt. The estimated savings to customers from injection of this propane inventory is an additional $1.7 million reduction in

the cost of gas for the forecast period.

5. SCE&G will replace part of the capacity requirement previously met by the propane air plants through a sharing of 41,235 dt/day of the gas supply related to the Jasper Generating Plant between the electric and gas departments. As reflected in Mr. Phalen's prefiled direct testimony, the Company originally proposed to share the fixed costs of these resources 50%-50% between the gas and electric departments. However, the Settlement and the revised MOU reflect a sharing that assigns 68% of the cost to the electric department and 32% to the gas department. This proportion reflects the relative number of firm customers served by the two utility divisions which is a measure of the relative size of the two departments. This change in the allocation of costs between the electric and gas departments reduces the cost included in the cost of gas factor by approximately $855,829.

Q. WHAT IS THE NET EFFECT OF SETTLEMENT ON THE COST OF GAS FACTOR?

A. The Settlement reduces the cost of gas factor for residential customers from $1.40499 per therm as stated in the Company's direct testimony to $1.29729 per therm, and with similar reductions for small and medium general service, and large general service. In sum, the Settlement reduces the requested increase in the residential cost of gas factor by $0.1077 or approximately 21%.

Q. WHAT IMPACT WILL THE SETTLEMENT HAVE ON SCE&G'S ANTICIPATED UNDER-COLLECTION?

A. Based on the forecast of gas costs on which Mr. Scruggs relied, the Settlement would result in an under-collection of SCE&G's gas costs of $21,012,605 as of the end of the forecast period.

Q. WHAT IS THE RATIONALE FOR THIS APPROACH?

A. The Parties are sensitive to the magnitude of the increase in gas costs that customers will be experiencing during this time. The Settlement reflects an agreement to spread the required increase over more than one PGA period and to take advantage of the softening of gas prices that current markets predict may occur a year from now. Given the unusual nature of the current situation, this departure from accepted PGA practice is something that the Parties to the Settlement have been willing to accept.

Q. HOW DO YOU ANTICIPATE ENSURING THAT THE UNDER-COLLECTION DOES NOT EXCEED THE FORECAST?

A. In the Settlement, the Parties agree that beginning in December 2005 SCE&G should be allowed to adjust its cost of gas factor on a monthly basis. SCE&G will re-compute its forecast of natural gas supply costs for each successive month. The monthly calculation will take into account any variance in the under- or over-collection from the prior month as well as updated forecast of demand and commodity costs, interruptible revenue credits, and firm sales volumes for the current month. To the extent this calculation results in a material variance between the over- or under-collection forecast for the month on Exhibit A to the Settlement and the over- or under-collection forecast in the updated projection, SCE&G will re-compute the cost of gas factor for the month to reduce the variance for that month to zero. The calculation however, will not result in a reduction in the cost of gas factor reflected in the Settlement until such time as the anticipated $21 million under-collection is forecasted to be eliminated. In other words, if gas prices or other factors make it possible to reduce the $21 million under-collection without increasing the cost of gas factor above the factor agreed to in the Settlement, then the factor will not be changed and the reductions in the under-collection will be allowed to continue until the $21 million under-collection is forecasted to be eliminated.

Q. WHAT DO YOU UNDERSTAND A MATERIAL VARIANCE TO BE?

A. SCE&G understands a material variance to be a variance that would increase or decrease the monthly gas cost recovery factor by one cent per therm.

Q. HOW IMPORTANT IS THE MONTHLY ADJUSTMENT PROVISION TO THE COMPANY?

A. The monthly adjustment provision of the Settlement s is very important to the Company. It gives SCE&G reasonable certainty that the under-collection at the end of the period will not exceed $21 million thereby mitigating the significant concerns related to cash flow and liquidity raised by the high gas costs in current markets.

As the Commission is aware, the investment community is more concerned about recovery of gas and other fuel costs by utilities than at any time in the recent past. Given the size of the fuel cost increases, and the resulting concerns about utilities' liquidity and the eventual recovery of these costs, the investment community is watching closely for signals about how regulatory commissions will treat these costs. The Settlement balances relief for customers in the near-term with protection for the Company's finances in the form of a mechanism of monthly gas cost adjustments and the allowance of interest on amount uncollected by November 1, 2006. These provisions create a structure that SCE&G believes the investment community will accept as fair and reasonable. It is however, a carefully balanced package and all aspects are important to it

Q. WHAT IS SCE&G ASKING THE COMMISSION TO DO?

A. SCE&G respectfully requests that the Commission approve the Settlement as presented. Under the Settlement, the Commodity Benchmark for all firm customers will be $1.14135 per therm. Demand Charge factors will stay the same and overall rates will be $1.29729 for Residential, $1.22218 for Small General Service / Medium General Service and $1.19823 for Large General Service.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Exhibit No. ___ (JEA-1)

FIRST AMENDED

GAS SUPPLY SHARING BETWEEN THE ELECTIC DEPARMENT AND THE GAS DEPARTMENT OF SOUTH CAROLINA ELECTRIC & GAS COMPANY, MEMORANDUM OF UNDERSTANDING

WHEREAS, South Carolina Electric & Gas Company ("SCE&G") operates both an integrated electric utility (the "Electric Department") and gas distribution utility (the "Gas Department") serving customers in South Carolina;

WHEREAS, the Gas Department has determined that it is necessary to retire certain propane air peaking facilities that have until now provided it with 71,750 dt/day of peaking capacity; and

WHEREAS, the Gas Department's upstream supplier, South Carolina Pipeline Corporation ("SCPC") has informed the Gas Department that it does not have upstream resources presently under contract to serve 41,235 dt/day of the additional capacity requirement incurred by retirement of the propane air facilities; and

WHEREAS, there is currently in force with the Electric Department a contract entitled Gas Supply Agreement Between South Carolina Electric & Gas Company, As Buyer And SCANA Energy Marketing, Inc., As Seller Dated As Of April 2, 2004, which provides for delivery of firm gas transportation and commodity service to the Electric Department's Jasper Generating Station through the interstate gas transmission pipeline operated by SCG Pipeline (the "Jasper Supply Contract"); and

WHEREAS, the SCG pipeline is physically interconnected with the SCPC pipeline; and

WHEREAS, SCPC has the capacity to receive into its system 41,235 dt/day or more of gas on a firm basis at its interconnection with the SCG pipeline; and

WHEREAS, SCPC has agreed to provide the Gas Department with an Experimental Resale Firm Transportation Peaking ("RFTP") Service to deliver 41,235 dt/day of gas from the SCG interconnection to the Gas Department's delivery points on SCPC's system; and

WHEREAS, due to the nature and duration of the peak demands on the Gas Department's system, and due to the availability of alternative fuel capability at the Jasper Generating Station, the Electric Department has determined that it can share with the Gas Department 41,235 dt/day of transportation and supply service under the Jasper Contract for use as a winter-time peaking service to supply the upstream component of the RFTP contract; and

WHEREAS, the parties originally agreed to a 50%-50% sharing of the fixed capacity costs related to 41,235 dt/day of transportation and supply service under the Jasper

Contract as a fair allocation of costs between the two departments for the service being shared as described in the Gas Supply Sharing Between the Electric Department and the Gas Department of South Carolina Electric & Gas Company, Memorandum of Understanding, dated September 20, 2005 ("MOU"); and

WHEREAS, by Settlement Agreement dated Oct. 17, 2005, SCE&G, the Office of Regulatory Staff and the South Carolina Energy Users Committee have agreed a 32.32%-67.68% sharing of the fixed capacity costs is reasonable which is based on the relative number of firm customers served by the gas and electric systems;

NOW THEREFORE, the departments enter into the following intra-company Memorandum of Understanding dated this 17th day of October, 2005.

1. Effective December 1, 2005 or such date thereafter as the RFTP agreement becomes effective, the Gas Department shall have the right of first refusal to call on 41,235 dt/day of capacity available under the Jasper Supply Contract during the months of November through April to supply the upstream component of the RFTP contract between South Carolina Electric & Gas Company and South Carolina Pipeline Corporation.

2. The Reservation Charge associated with 41,235 dt/day of capacity under the Jasper Supply Contract shall be allocated on a 32.32%-67.68% basis between the Gas Department and the Electric Department for so long as the Gas Department holds the above referenced right of first refusal.

3. Gas Purchases and Scheduling Requirements related to these rights shall be subject to the terms and conditions set forth in the Jasper Supply Contract with the addition of the following provision:

    a. Gas Purchases and Variable Transportation Costs shall be allocated between the Gas Department and the Electric Department based on actual quantities scheduled for the benefit of each.
    b. Any costs associated with imbalances shall be allocated to the department that causes such an imbalance to be incurred subject to the terms and conditions of the Jasper Supply Contracts.

4. In times of anticipated peak demand on the gas system, the Gas Department will give the Electric Department such notice as is reasonably possible of its intent to call on the resources granted hereunder. The Gas Department shall coordinate with the Electric Department to ensure that its exercise of its rights hereunder will conform with the nomination and scheduling protocols of the RFTP Contract and of the Jasper Supply Contract and will cooperate to ensure that penalties, charges and imbalances are minimized.

5. This Memorandum of Understanding may be amended only by writing signed by both departments.

6. The cost allocation provisions of this Memorandum of Understanding shall be subject to approval by the Public Service Commission of South Carolina and the Memorandum of Understanding shall not enter into force until such approval is given.

IN WITNESS WHEREOF, this Memorandum of Understanding has been executed on the date first above written.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
GAS DEPARTMENT

By: ______________________

Name: Martin K. Phalen

Title: Vice President

SOUTH CAROLINA ELECTRIC & GAS COMPANY
ELECRTIC DEPARTMENT

By: ______________________

Name: James Landreth

Title: Vice President